
Redmond Fiscal Policies

Budget Education Session #4

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Introduction

- Why are financial policies and practices important?
- What are the City's financial policies and practices intended to achieve?

Why are financial policies important and what are they intended to achieve?

- Financial policies are established to guide the management of an entity's resources
 - ✓ Redmond's fiscal policies are established and adopted by the City Council
- What are Redmond's policies intended to achieve?
 - ✓ To maintain a financial base sufficient to sustain municipal services
 - ✓ To withstand fluctuations in the local and regional economies
 - ✓ To maintain a good credit rating in the financial community and to assure taxpayers that Redmond City Government is well managed

City Fiscal Policies

- Budget Policies
- Revenue Policies
- Expenditure Policies
- CIP Policies
- Debt Policies
- Reserve Policies

Budget Policies

■ Legal Framework

- ✓ City budgets on a 2-year basis
 - First two year budget started with 1997/1998 biennial budget
- ✓ Budgets must be balanced (i.e. revenues equal expenditures)
- ✓ Legal compliance for budget is at the fund level
 - Total fund expenditures cannot exceed authorized appropriations

Budget Policies

■ Guiding Principles

- ✓ Current operating expenses will be paid from current operating revenues
- ✓ Budget should provide acceptable level of funding for the preservation and replacement of City assets
- ✓ Avoid budgetary/accounting procedures that balances current budget at the expense of future budgets
- ✓ Surpluses limited to one time emergency capital expenditures or dedicated to the CIP
 - A surplus is defined as resources available after accounting for reappropriations and the beginning fund balance for the next biennium

Budget Policies

- Monitoring and Forecasting requirements
 - ✓ Quarterly budget review
 - ✓ Mid-biennial budget review
 - ✓ Six year financial forecast

Revenue Policies

- The City will maintain a diversified and stable revenue system to:
 - ✓ Shelter it from fluctuations in any one revenue source
 - ✓ Minimize the effect of an economic downturn
- Given the sensitivity of many City revenues, estimates must be conservative

General Fund Revenue Profile

1994 vs 2003

- The City's revenue mix has changed somewhat and is more reliant on economically sensitive revenues in 2003 vs 1994

| | 1994 | % of Total | 2003 | % of Total |
|-------------------------------------|-------------------|---------------|-------------------|---------------|
| Elastic Sources of Revenue | | | | |
| Sales | 9,358,237 | 31% | 16,507,770 | 33% |
| Development | 1,936,461 | 7% | 3,262,200 | 7% |
| Business Licenses | 401,744 | 1% | 940,493 | 2% |
| Interest | 458,362 | 2% | 372,033 | 1% |
| Property Tax - New Construction | 116,437 | 0% | 179,160 | 0% |
| Total | 12,271,241 | 41% | 21,261,657 | 43% |
| Inelastic Sources of Revenue | | | | |
| Property | 5,606,526 | 19% | 9,546,732 | 19% |
| Intergov't'l | 4,225,178 | 14% | 5,954,747 | 12% |
| Utility (garbage/phone/cable) | 4,268,844 | 14% | 8,557,884 | 17% |
| Interfund/Overhead Charges | 1,965,091 | 7% | 2,325,325 | 5% |
| Fines and Forfeitures | 353,717 | 1% | 219,855 | 0% |
| Other | 1,076,638 | 4% | 1,867,715 | 4% |
| Total | 17,495,994 | 59% | 28,472,258 | 57% |
| Grand Total - All Revenues | 29,767,235 | 100% | 49,733,914 | 100% |

Source: City Financial Records; Does not include beginning fund balance

Revenue Policies (continued)

- The City will establish user fees at a level related to the cost of providing the service
 - ✓ Fees are evaluated on a regular basis
 - ✓ Fees and user charges for the Utility funds (WWW, SWM, UPDs) will be set a level that fully supports the direct and indirect cost of the Utility
 - ✓ Other fees such as development review, parks and recreation are not designed to recover full costs

Expenditure Policies

- Expenditures will be set at a level sufficient to protect public well being and safety of the community
- The City will only propose operating expenditures which can be supported by operating revenues
 - ✓ One time expenditures may either be supported by one-time revenues or on-going revenues

General Fund Expenditure Profile - 1994 vs 2003

- City's expenditure profile has changed due to more money being transferred to other funds in 2003 versus 1994

| | 1994 | % of Total | 2003 | % of Total |
|----------------------------------------|-------------------|---------------|-------------------|---------------|
| Salaries and Benefits [1] | 19,233,490 | 67% | 33,202,854 | 67% |
| Services & Intergovernmental Contracts | 4,691,408 | 16% | 6,378,723 | 13% |
| Transfers to other funds | 3,301,946 | 12% | 8,810,708 | 18% |
| Supplies | 788,767 | 3% | 965,676 | 2% |
| Capital Equipment | 589,745 | 2% | 33,110 | 0% |
| Total | 28,605,356 | 100% | 49,391,071 | 100% |

[1] Includes Overtime and Supplemental Help

Source: City Financial Records

Transfers to Other Funds

- Between 1994 and 2003, transfers from the General Fund increased the most in the areas of Information Technology, CIP and Fleet Maintenance

| | Description | 1994 | 2003 | Change |
|---------------------|-------------------------------|-----------|-----------|-----------|
| Policy Transfers | CIP | 1,628,070 | 2,936,829 | 1,308,759 |
| | Human Services | 278,975 | 535,409 | 256,434 |
| | Arts Activity | 61,041 | 79,181 | 18,140 |
| | Total Policy Transfers | 1,968,086 | 3,551,419 | 1,583,333 |
| Operating Transfers | Fleet Maintenance | 497,959 | 1,494,549 | 996,590 |
| | Info Technology [1] | - | 1,692,872 | 1,692,872 |
| | Capital Equipment Replacement | 150,000 | 1,000,000 | 850,000 |
| | Reserves | - | - | - |
| | Insurance Premiums | 299,136 | 689,568 | 390,432 |
| | Fire Equipment Replacement | 211,000 | 261,000 | 50,000 |
| | Other | 175,765 | 121,300 | (54,465) |
| | Total Operating Transfers | 1,333,860 | 5,259,289 | 3,925,429 |
| | Grand Total | 3,301,946 | 8,810,708 | 5,508,762 |

[1] The Information Technology Fund was created in 1997. Prior to this, Information Technology was a part of the Finance Department.

Source: City financial records

Capital Investment Budget Policies

- The City's CIP is established on a six year basis
 - ✓ Dedicated to the construction/purchase of capital facilities and infrastructure
- Cost of capital program as well as maintenance/operations identified and evaluated concurrent with the biennial budget
- Cost of each project and its funding source must be identified
- Least costly financing method determined for all new projects
- Must be \$25,000 or more and has a useful life of five or more years

Debt Management Policies

- Two types of debt - Short term & Long term
- Short term debt
 - ✓ Cover temporary cash flow needs
 - ✓ Period of one year or less
 - ✓ Interfund loans permitted only if it does not adversely affect the operations from which the funds are borrowed
- Long term debt
 - ✓ Limited to capital improvements that cannot be financed from current revenues
 - ✓ Where possible revenue bonds used instead of general obligation bonds
 - ✓ Will not be used to support maintenance and operations

Reserve Policies

- Reserves are created and maintained to offset significant downturns in the economy, to provide for sufficient daily financial needs and to provide for replacement of City assets
- Operating reserves established for the following programs:
 - ✓ General Fund
 - General Fund Operations
 - Development Review
 - LEOFF 1 Retiree
 - ✓ Utility Operations
 - WWW, SWM, UPD
 - ✓ Capital Equipment
 - Fleet, Fire Equipment, General Capital Equipment Replacement

General Fund Operations

- Current Reserve Amount \$3.6M

- Equal to 10% of revenues
 - ✓ Lowered temporarily to 8.5% to balance 2003-04 budget
 - ✓ Council aims to restore to 10% in 2005-06
 - ✓ Council may wish to have further discussion on the criteria for future draws on the reserve and evaluate the appropriateness of current reserve levels

- Other Cities
 - ✓ Bellevue: 5%
 - ✓ Renton: 8%
 - ✓ Auburn: 10%, reduced to 8% at end of 2002
 - ✓ Kent: 10%, reduced to 5.6% at end of 2002
 - ✓ Mercer Island: 10%
 - ✓ Kirkland: 12%, reduced to 10.7% at end of 2002

Development Review Reserve

- Current Reserve Amount: \$913K

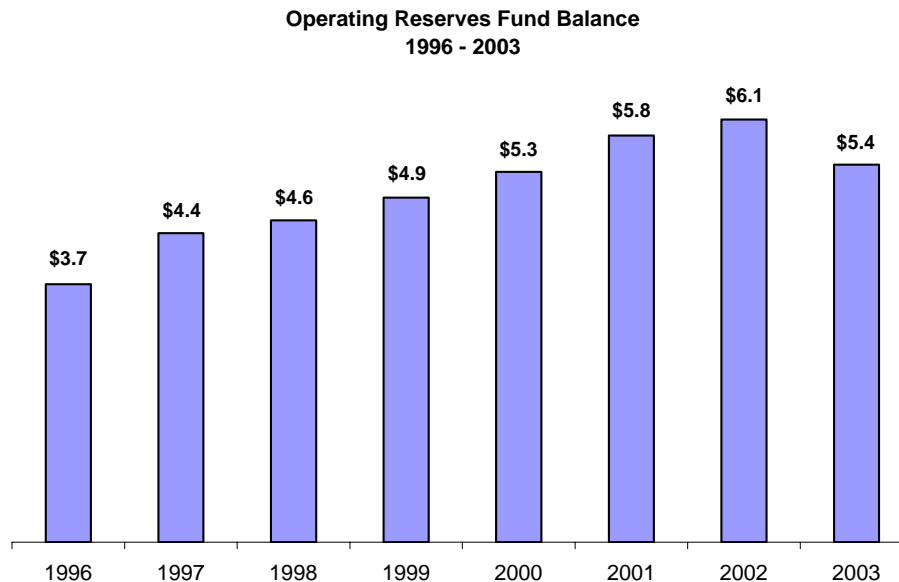
- Equal to 25% of building inspection and review costs
 - ✓ To provide for completion of building permit responsibilities in the event of a decline in development activity
 - ✓ Reserve level may be too high given the decline in development activity in the City
 - ✓ Staff currently analyzing this reserve to determine the appropriate level. Recommendation forthcoming to the Council.

LEOFF 1 Active and Retired Employees (\$458K)

- Reserve established to pay for the medical costs beyond the benefits provided to other City employees (law)
 - ✓ Funding level based upon actuarial analysis
 - ✓ Funding currently provided by Medical Self Insurance Fund
 - ✓ Currently 8 active employees and 26 retired employees covered under LEOFF 1

General Fund Reserve Balance (Operations, Development Review, LEOFF 1)

- General Fund Operating Reserve balance declined in 2003 primarily due to temporary reduction in General Operations Reserve approved by Council



Source: Comprehensive Annual Financial Report; Includes reserve for General Fund, Building Permit and LEOFF 1 retirees.

Utility Reserves

- Operating reserves equal to 12% of operating expenses
 - ✓ Reserve for METRO wastewater treatment services at 2% of expenses – amendment to City fiscal policies needed
- To meet daily cash flow requirements
- Study currently underway to evaluate Utility rates and reserve levels for 2005 and 2006
- Utility has a separate reserve to pay for the replacement of its assets

Equipment Reserve Policies

- Fleet Equipment Replacement
 - ✓ Used to replace vehicles in the City's fleet
 - ✓ \$2.0M/year paid into this account from various funds, based upon vehicle life and use
 - ✓ Current balance is \$4.5M
 - ✓ Staff is currently evaluating long-term cash flow needs and will recommend appropriate adjustments as part of the 2005-06 Budget
- Fire Equipment Replacement
 - ✓ Used to replace fire equipment
 - ✓ \$461K/year contributed from GF and Fire CIP
 - ✓ Current balance is \$1.2M
- General Capital Equipment
 - ✓ Monies designated for the replacement of general city assets. Does not include buildings or utility assets
 - ✓ \$1.0M/year contributed from GF
 - ✓ Current balance is \$1.9M. Most of this balance is allocated to replacement of Finance/HR system.
 - Will need to evaluate appropriateness of reserve level as part of 2005-06 Budget

Conclusions

- City fiscal policies has served as a foundation for how City resources are managed
- Periodic review of the City's fiscal policies is warranted to ensure alignment with the fiscal goals of the City
- Adhering to the City's goal of matching current operating expenditures to current operating revenues is important
 - ✓ Enables the City to continue to be fiscally healthy and provide for a level of certainty for the provision of services
 - ✓ Establishes credibility and confidence with citizens of the City and national municipal credit rating agencies that resources are well managed

Next Steps

- Further evaluation of reserve policies
 - ✓ Develop criteria for draws on general operating reserves
 - ✓ Discussion about whether existing general operating reserve level is appropriate
 - ✓ Determine appropriate level of development review reserve
 - ✓ Amend Utility operating reserve
 - ✓ Evaluate cash flow needs of Fleet Equipment Replacement Fund
 - ✓ Evaluate cash flow needs of General Capital Equipment Replacement Reserve

End of Presentation